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UNCLAS ANKARA 001529

SIPDIS

SENSITIVE

STATE FOR E, P, EUR/SE AND EB
TREASURY FOR U/S TAYLOR AND OASIA - MILLS
NSC FOR QUANRUD AND BRYZA

E.O. 12958: N/A

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SUBJECT: TURKEY'S ECONOMY MARCH 11: MARKETS QUIET, WEAK
DEMAND FOR DOLLAR BOND

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Unsuccessful Dollar Bond Auction

1. (U) On March 11, Turkish Treasury auctioned a 546-day dollar-denominated bond in the local debt market to weak demand. The annual yield - 6.88 percent - was below market expectations, but the Treasury only succeeded in selling \$180.5 million.

2. (SBU) Comment: The debt redemption on March 12 is quite small - TL 545 trillion (about \$337 million). The largest redemption of the month is next week, with a payment of TL 5.2 quadrillion (\$3.2 billion). Thus, today's auction doesn't help raise money for next week, and this will put added pressure on the March 18 auction.

3. (SBU) Comment continued: Local bond traders (Deutsche Bank's Dilek Yardim) tell us the Turkish sovereign dollar bonds are currently less attractive than lira-denominated debt, with its 25 percent real interest rate. This wasn't always the case. In 2001, when exchange rate risk was high in Turkey, dollar bonds were quite attractive (and the yields were 12-14 percent as compared with today's 7 percent.)

Markets Quiet, Waiting for the Erdogan GOT

4. (SBU) Local financial markets remained in a waiting mode, with T-bill yields unchanged at 56.5-57 percent compounded, lira at TL 1,610,000 to the dollar and the stock exchange down 0.8 percent in very light trading.

5. (SBU) Comment: Markets are waiting for the formation of the Erdogan government, with expectations still high that the new GOT will move to pass a second resolution that unlocks the U.S. package. We are hearing rumors from multiple sources that Erdogan might change several ministers, including MinState for Treasury Ali Babacan. We have no confirmation of these rumors.
PEARSON